Aboriginal Affairs and Northern Development Canada

Affaires autochtones et Développement du Nord Canada

2013-2014 INDIAN OIL AND GAS CANADA (IOGC)

Annual Report

Canada

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IOGC office location Tsuu T'ina Nation Reserve Alberta, Canada

MESSAGE FROM THE CEO

To our stakeholders

Fiscal year 2013-2014 was another busy year for Indian Oil and Gas Canada (IOGC). Throughout the year, three key projects continued to be priorities:

- Modern Act, Regulations, and Systems (MARS)
- Interest Statement Automation
- Royalty Management

The MARS project was initiated in 2010-2011 to guide the modernization of the *Indian Oil and Gas Act*, and the *Indian Oil and Gas Regulations*,1995, with its associated systems. The MARS project remains IOGC's top priority for 2013-2014 and beyond.

Modernization of the *Indian Oil and Gas Act* and associated Regulations has been a key project of IOGC for several years. The first phase of the project was completed with the granting of Royal Assent to the amended *Indian Oil and Gas Act* in May 2009. Subsequent phases of the project include: the development of new Regulations; the coming into force of the 2009 Act and the new Regulations; business process modernization; and, informatics enhancements. Business process and informatics changes, required to support and to optimize the implementation of the new Act and Regulations, are progressing well on parallel projects. A Joint Technical Committee (JTC) – comprised of First Nation oil and gas technicians and Government of Canada officials from IOGC, Aboriginal Affairs and Northern Development Canada, and Justice Canada – worked on the 2009 Act and have been working on developing its new supporting Regulations.

Regulatory Drafting Instructions were completed towards the end of 2012-2013, as projected. Yet the resulting volume (more than 6,600 pages) and technical complexity of the material meant that a complete set of new regulations by the end of 2014 was not achievable. Since it would be beneficial to First Nations with oil and gas resources if the new Act could be brought into force with minimal delay, the department developed a new phased approach to reg-

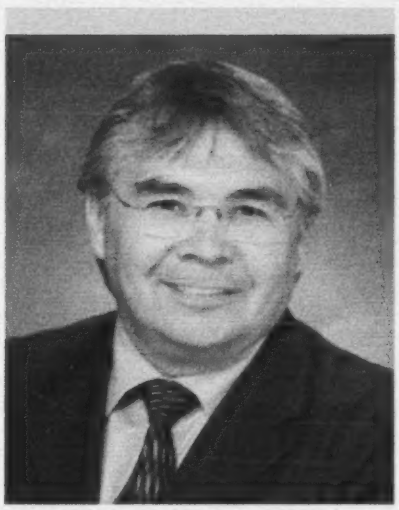
The MARS project remains IOGC's top priority for 2013-2014 and beyond

Through hard work and commitment, we were able to establish a strong foundation that could see IOGC bringing into force and administering a new Act and a new set of core regulations as early as 2015

ulatory development. Such an approach would have the amended 2009 Act come into force together with a small set of core regulations and new regulations would continue to be developed and brought into force until the existing 1995 Regulations have been entirely replaced. When presented with this proposed approach, JTC provided valuable input as to the sequencing for the development and coming into force of new regulations.

The MARS project team spent much of 2013-2014 developing the details for a phased approach and in building First Nations support for this new approach.

Informatics enhancements, required to support IOGC modernization, reached an important milestone in October 2013 when IOGC's request for membership in PETRINEX (**PETR**oleum **IN**formation **EX**cellence, formerly the Petroleum Registry of Alberta) was granted. PETRINEX is the provincial and industry recognized authoritative source for hydrocarbon volume and pricing information. Once fully implemented, PETRINEX and IOGC will be able to exchange data which would improve both the accuracy and timeliness of IOGC's royalty assessment process. This also addresses a major source of disputes between First Nations and their business partners – volume measurement and pricing.



Strater Crowfoot, Executive Director and CEO

The Interest Statement Automation project's goal is to automate the collection of interest on late payments of trust funds and to establish an accounts receivable system consistent with future needs. Upon completion of this multi-year project, the following would be achieved: business and system processes to support the downloading of interest rates; calculation of interest for land and royalty amounts due; monthly company statements; and, collections / notices to comply.

The Royalty Management project will mirror key changes originating from the Alberta and Saskatchewan royalty regimes and any other royalty regime changes that apply at the provincial level. This project is required to ensure royalty assessments are accurate, complete, and timely and will minimize royalty overpayments and underpayments.

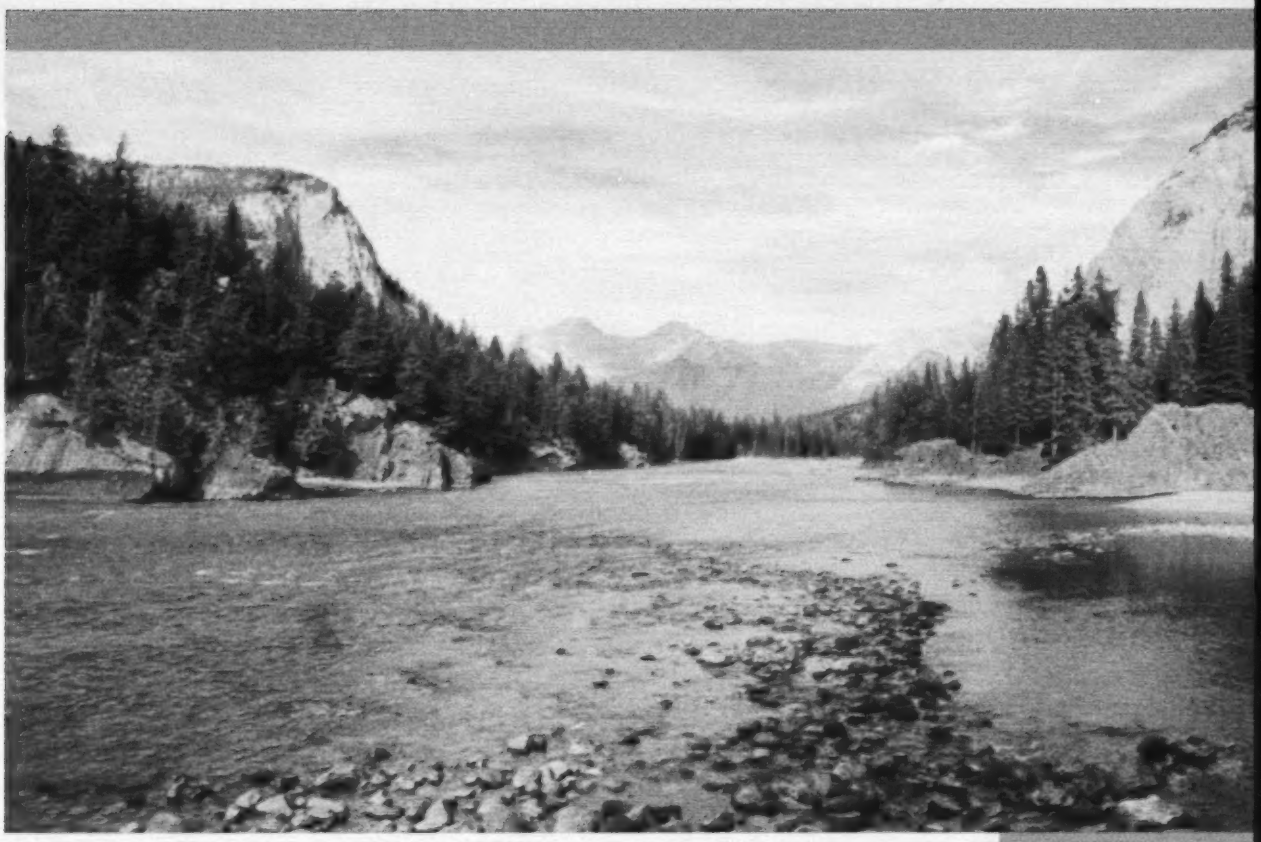
In addition to these key projects, IOGC underwent a significant organizational restructuring to facilitate implementation of the MARS project. The new IOGC organizational structure was implemented on April 1, 2013.

On the operations side, weak natural gas prices in 2013 continued to be reflected by movement away from dry gas plays to liquids-rich gas and oil plays. Consequently, this resulted in fewer wells drilled and decreased gas royalties. In total, IOGC collected $157.5 million on behalf of First Nations and issued a total of 102 new surface agreements and 28 sub-surface agreements. More details on our operations activity are contained in this report.

In closing, I would again like to acknowledge the contributions made by IOGC employees, partners, and clients throughout the year. Through hard work and commitment, we were able to establish a strong foundation that could see IOGC bringing into force and administering a new Act and a new set of core regulations as early as 2015.

Sincerely,

Strater Crowfoot
Executive Director and CEO



Banff National Park
Alberta, Canada

OVERVIEW

History of Indian Oil and Gas Canada and Related Legislation

The Government of Canada has a broad mandate for First Nation issues, which arises from existing legislation and from legal obligations contained in section 91(24) of the *Constitution Act*, 1867. Aboriginal Affairs and Northern Development Canada (AANDC) is entrusted with fulfilling various obligations of the federal government to Aboriginal peoples as outlined in the Constitution, treaties, the *Indian Act*, and other legislation. Included in this obligation is the management of natural resources on First Nations reserve lands, including oil and gas.

Oil and gas development on First Nations reserve lands has been legislated since 1974 under the *Indian Oil and Gas Act*. Prior to that, oil and gas activities were administered under the *Indian Act*. In 1977, the *Indian Oil and Gas Regulations* were promulgated and brought under the *Indian Oil and Gas Act*. Those Regulations were last revised in 1995.

In 1987, Indian Oil and Gas Canada (IOGC) was established and it replaced Indian Minerals West as a dedicated branch within the Department of Indian Affairs and Northern Development. IOGC's mandate was to manage oil and gas development on First Nations reserve lands and to further First Nation initiatives to manage and control their resources. In 1993, IOGC was established as a Special Operating Agency to increase its client focus.

Statutory Authorities

IOGC operates in accordance with provisions of the *Indian Oil and Gas Act* and the *Indian Oil and Gas Regulations, 1995*.

IOGC also operates in accordance with other federal legislation including provisions of the *Indian Act*, the *Canadian Environmental Assessment Act*, and the *Financial Administration Act*.

IOGC Co-Management Board

IOGC operates under the direction of an Executive Director / Chief Executive Officer who participates as a member of the IOGC Co-Management Board. The Board was established in 1996 by the signing of a Memorandum of Understanding between the Minister of Indian Affairs and Northern Development and the Indian Resource Council (IRC) to co-manage IOGC operations. The Board focuses on areas of common interests.

Meeting with Associate Deputy Minister, and IOGC Executive members

There are nine members on the IOGC Co-Management Board. The Board is comprised of the IRC Chair and five other members appointed by the IRC. Two positions are named AANDC positions; the Assistant Deputy Minister of Lands and Economic Development and the CEO and Executive Director of IOGC. One position is appointed by the Minister from the oil and gas industry.

Roles and Responsibilities

IOGC is a Special Operating Agency and separate employer within Aboriginal Affairs and Northern Development Canada with responsibility for managing and regulating oil and gas resources on designated First Nations reserve lands across Canada.

IOGC currently manages the oil and gas resources of more than 50 First Nations with active oil and gas agreements. All funds collected on behalf of First Nations are placed in their trust accounts.

IOGC works closely with First Nation Chiefs and Councils, and their approval is required for all agreements. For First Nations that have designated reserve lands for oil and gas activities, IOGC's main functions are to:

- Negotiate, issue and administer agreements with oil and gas companies
- Conduct environmental reviews
- Monitor oil and gas production and sales prices
- Verify / assess and collect moneys such as bonuses, royalties and rents, and
- Ensure legislative and contract requirements are met

STRATEGIC PRIORITIES FOR 2013-2014

Modernization of Act, Regulations, and Systems (MARS)

Legislation modernizing the *Indian Oil and Gas Act, 1974* received Royal Assent in May 2009 and resulted in the *Indian Oil and Gas Act, 2009*. The updated Act addresses the essential requirements for managing all aspects of industry operations on First Nations reserve lands by:

- ensuring environmental protection of First Nation lands, and
- increasing regulatory compliance

The *IOGA, 2009* will come into force once new Indian Oil and Gas Regulations have been completed and promulgated. The *IOGA, 2009* provides for modernized regulations that would align with provincial regimes in key competitive areas and, therefore, industry would be working with rule sets that are familiar to them. In this manner, it is expected that reserve lands would be as competitive for industry investment as equivalent lands off reserve.

The amended Act was developed with the participation of a Joint Technical Committee (JTC), along with the assistance of the Indian Resource Council (IRC). Their work continues on throughout the development of new regulations.

The JTC is a working level committee comprised of First Nation and government members charged with the responsibility to review and comment on proposed changes to the existing *Indian Oil and Gas Regulations, 1995*. This group does not replace individual involvement sessions with First Nations but allows IOGC to access those First Nation technicians with significant oil and gas expertise. Due to the expected complexity of the regulatory amendments, the work was divided into a number of themes with each theme subsequently becoming a distinct regulatory module.

During 2013-2014, work on the MARS project continued in several key areas:

- Developing new regulations based upon drafting instructions and policy considerations shared with the JTC
- Consultation, engagement, and outreach; and
- Preparing to implement and administer the new on-reserve oil and gas regime

Regulations Development – First Nations Involvement

By the end of March 2013, through the participation and support of both the JTC and the IRC, IOGC met its targeted milestone for completing both the policy considerations and the regulatory drafting instructions

for all the regulatory modules. Regulatory drafters from Justice Canada then faced the daunting task of reviewing and considering more than 6,600 pages of complex, technical information during their drafting of the new regulations. Given the sheer volume and the complex, technical nature of the material, it was clear that the department's target of having a complete set of new regulations by the end of calendar year 2014 was not achievable. Yet the amended 2009 Act contains numerous enhancements and thus it would be beneficial to First Nations with oil and gas resources if the new Act could be brought into force with minimal delay.

IOGC met its targeted milestone for completing both the policy considerations and the regulatory drafting instructions for all the regulatory modules

To achieve this objective, the department developed a proposal for a phased approach to regulatory development. A phased approach would see the amended 2009 Act come into force together with a smaller set of core regulations. Regulations would continue to be developed and brought into force until the existing 1995 Regulations have been entirely replaced by new, modern regulations. When presented with this proposed phased approach to regulatory development, JTC provided valuable input as to the sequencing for the development and coming into force of new regulations. Throughout 2013-2014, considerable time was taken in developing the details of the phased approach and in explaining the benefits of such an approach to First Nations.

Regulations Development – Consultation, Engagement and Outreach

Throughout regulations development, face-to-face consultation and outreach with individual First Nations, Tribal Councils, and Treaty Areas were conducted upon request. In addition to these in-person meetings, First Nations with oil and gas potential, as well as all companies with oil and gas interests on reserve, receive a quarterly newsletter with progress reports on the MARS project.

To demonstrate the openness and transparency of the regulatory development process, in early February 2014, Chiefs and Councils of oil and gas First Nations were mailed a package that contained: policy considerations for new regulations; regulatory drafting instructions for all proposed regulatory modules; and, an early, preliminary draft of certain sections of the core regulations. As well, the Canadian Association of Petroleum Producers (CAPP) was also provided a copy of the regulatory drafting instructions.

Towards the end of March 2014, two oil and gas symposiums were held – one in Regina the other in Edmonton. During these symposiums, the phased approach to regulations development was presented to oil and gas First Nations in addition to specific details on the new regulations and the projected timeframes for the coming into force of the 2009 Act and a set of core regulations.

Preparing to Implement and Administer the New On-reserve Oil and Gas Regime

To optimize the benefits to First Nations of the new on-reserve legislative and regulatory regime, IOGC underwent a significant organizational re-structuring that was implemented April 1, 2013. The new organizational structure was designed to effectively implement, monitor, and enforce the new regime. To support this work, IOGC is also developing modernized business processes, supported by enhanced informatics systems, that will enable effective and efficient business practices.

Business Process Modernization

In 2013-2014, IOGC continued to improve how it conducts business by:

- reviewing existing business practices and processes to ensure synergy and compliance
- identifying and eliminating duplication of effort and
- reducing red tape and streamlining procedures

Business process modernization is important because it helps the identification of requirements for informatics – new tools, changes needed to existing tools, or identifying data sources that can replace and retire existing ones. Also, an analysis of the resulting

business requirements from a systemization point of view is required for increased access by First Nations to their oil and gas data.

In 2011-2012, IOGC completed process mapping of its current business practices. In 2013-2014, these were updated to reflect IOGC's new organizational structure. New process maps were completed in the areas of: 1) royalty for enhanced oil recovery in Saskatchewan, Alberta crude bitumen, and Manitoba royalty; 2) Gas Cost Allowance data loading; 3) lease administration; and, 4) PETRINEX data exchange with IOGC.

Informatics Enhancement – Resource Information Management System

IOGC's Resource Information Management System (RIMS) is the operational database that stores information regarding all surface and sub-surface agreements, Indian interest wells, and royalty entities. It supports the departmental trust fund management system with both land and royalty financial transaction records that help IOGC verify that First Nations receive the proper royalties that are due.

Informatics enhancements had been planned as part of the overall IOGC modernization that included the development of a new Act and new regulations. Originally, the only changes proposed for RIMS were those required to support areas of new business. Yet the scope and complexity of legislative and regulatory amendments resulted in consideration for full replacement of RIMS. However, the projected cost for a proposed full-replacement successor system was deemed cost-prohibitive.

As a result, it is proposed that: 1) the royalty management component of the existing RIMS be replaced; 2) the system provide for PETRINEX data exchange with IOGC; and, 3) the system introduce elements of case management so IOGC would be better-equipped to track and resolve issues more efficiently and effectively.

The RIMS2 project is a joint initiative between IOGC and the Information Management Branch of Aboriginal Affairs and Northern Development Canada. Several stages require approval from the Treasury Board Cabinet Committee.

This new RIMS2 informatics solution is expected to provide for IOGC membership and data exchange with PETRINEX (**PETR**oleum **IN**formation **EX**cellence). PETRINEX is the provincial and industry recognized authoritative source for hydrocarbon volume and pricing information. IOGC's request for membership in PETRINEX was approved in October 2013. PETRINEX partners currently include the provinces of Alberta and Saskatchewan as well as the oil and gas industry. Manitoba and Statistics Canada are in the process of joining. PETRINEX data exchange with IOGC would provide tangible benefits in the areas of more timely and certain royalty assessments.

The new organizational structure was designed to effectively implement, monitor, and enforce the new regime

Interest Statement Automation

IOGC receives moneys on behalf of First Nations relating to the exploration and production of oil and gas from their lands.

The goal of this project is to automate the collection of interest on late payments of trust funds through the implementation of effective and efficient business and system processes.

Environment Manager, IOGC

Work continued during the fiscal year to analyze and resolve issues that arose. Changes were made to the existing RIMS to establish a solid foundation for future informatics enhancements to support this project. Completion of this project remains a key priority for IOGC.

Royalty Management

The goal of this project is to mirror key changes originating from the Alberta and Saskatchewan royalty regimes plus any other royalty regime changes that apply at the provincial level. This would allow IOGC to assess royalties in a more accurate, complete, and timely manner while minimizing instances of royalty overpayments and underpayments.

PETRINEX is the provincial and industry recognized authoritative source for hydrocarbon volume and pricing information

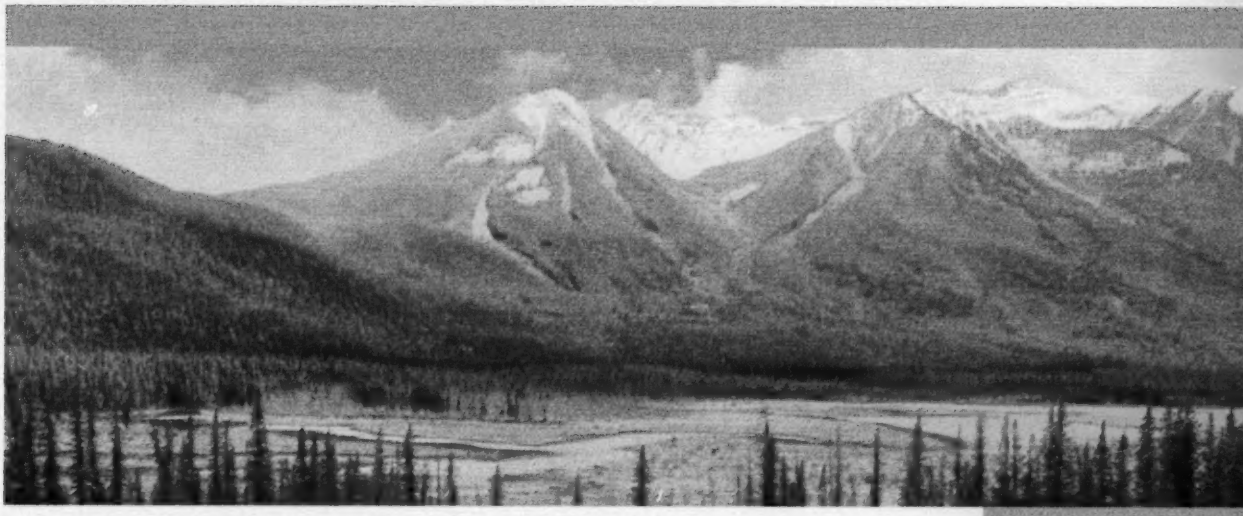
IOGC regularly meets with the Canadian Association of Petroleum Producers (CAPP) to get valuable feedback from industry on areas of mutual interest. In 2013-2014, this included changes to royalty submission including communications with industry to advise them of such changes.

The project team developed new rule sets for dealing with any situations of overpayment or underpayment as well as a proposed new resolution process and accompanying policy options that are currently being considered.

Over the past year, IOGC re-vamped its electronic royalty data submission web interface to make it more user-friendly while introducing additional data validation rules to inform users of errors in their data entry. The new web interface is ready for launch yet its implementation was suspended due to AANDC headquarters migrating to new departmental and whole-of-government standard systems at the end of FY2013-2014. It is now scheduled to be implemented once an informatics threat and risk assessment is completed. In addition, enhancements to RIMS to support this project included: the Alberta 2011 *New Well Royalty Regulations* being implemented for the appropriate wells; and, the development and testing of new RIMS reports.

Another priority area for the Royalty Management project is verifying and processing underpayments and overpayments. IOGC developed, and continues to refine, its data quality assurance processes. Directions to Comply for underpayments issued in FY2013-2014 resulted in IOGC collecting more than $2 million in additional royalties that were owed to First Nations. IOGC also addressed nearly $4 million in overpayments over the same period.

IOGC staff at field inspection



Bow River in Bow Valley Banff National Park, Alberta, Canada

OPERATIONS

IOGC has four distinct divisions that regulate and manage the exploration and development of oil and gas on First Nations reserve lands:

- Executive Division
- Lease and Royalty Administration Division
- Regulatory Compliance Division; and
- Planning and Corporate Services Division

Executive Division

The Executive Division focuses on:

- Setting corporate direction and strategy
- Fostering effective working relationships among First Nations, industry, and government via:
  - Consultation and effective partnerships
  - Implementation of the directives of the IOGC Board of Directors
- Strategic Projects management and administration
- Communications and corporate executive services
- Project Management Office

The division contains three units: Strategic Projects, Communications and Executive Services; and, the Project Management Office.

a. Strategic Projects Unit

- Supporting other IOGC units with business process improvements
- Leading RIMS2 informatics enhancements
- Creating strategic partnerships for data exchange with authoritative sources
- Facilitating IOGC business units' access to services such as
  - business process mapping and modernization
  - business analysis
  - advisory services; and
  - technical writing

b. Communications and Executive Services Unit

- disseminating information to First Nations, oil and gas industry companies, the public and government
- developing Corporate communications and strategies regarding IOGC issues that have the potential to impact First Nations or the private sector
- developing and preparing briefing material on IOGC issues for senior departmental officials and the Minister
- Preparing communications plans, strategies, reports (including the Annual Report, the quarterly MARS Newsletter, and Information Letters or Notices on IOGC's website), and correspondence on IOGC activities
- Maintaining IOGC's Internet and Intranet websites

c. Project Management Office

- Providing project co-ordination services for the MARS Project

- Providing day-to-day project management and administration for the RIMS Systems Maintenance Project as well as secretariat services to the RIMS Steering Committee
- Providing services related to Organizational Change Management, which focuses on the "people side" of change, including the procurement of professional services in this area of specialty

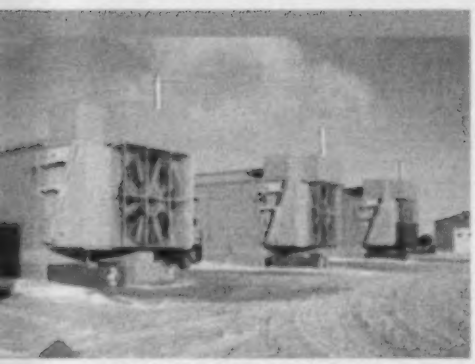
Lease and Royalty Administration Division

Surface area under disposition refers to the actual amount of reserve land impacted by oil and gas development

The Lease and Royalty Administration Division is responsible for the issuance and administration of oil and gas agreements. The division contains five units: Negotiations, Contracts and Research; Lease Administration; Royalties; Geology; and, Treaty Land Entitlement Support.

a. Negotiations, Contracts, and Research Unit

- Identifying disposition options with First Nations
- Assessing proposals from interested companies to ensure fair return
- Providing negotiation and facilitation expertise to reach agreements between First Nations and companies
- Drafting and issuing sub-surface oil and gas agreements
- Administering sub-surface continuances
- Monitoring and verifying regulatory and contractual commitments
- Verifying legal title and status of minerals for surrendered and designated Indian reserve lands prior to disposition; and
- Providing title verification and confirming acreage for pooling purposes



Compressors at Siksika First Nation Reserve in Alberta

The royalty changes that were introduced by the Province of Alberta continue to have an impact on IOGC's operations. The Negotiations, Contracts, and Research Unit continued to review agreements to determine the number and extent to which they have been affected by the Alberta royalty regime changes. This review confirmed that there is a continued requirement to dedicate significant resources to ensure these royalty changes are properly reflected in both existing and new agreements issued by IOGC on First Nation lands.

The Negotiations, Contracts, and Research Unit worked diligently with all stakeholders and IOGC was able to continue to implement competitive agreements as compared to provincial royalty regimes. The Negotiations, Contracts, and Research Unit was able to ensure every new and amended disposition recommended last fiscal year provided a return to First Nations that was higher than both the Alberta and Saskatchewan royalty regimes.

b. Lease Administration Unit

- Issuing oil and gas surface leases, rights of way, and exploratory licenses and associated surface rights to companies
- Administering surface and sub-surface leases; and
- Verifying and maintaining corporate information and records

In 2013-2014, IOGC issued 75 surface agreements and 27 right-of-way agreements. This is a decrease of 53 dispositions over 2012-2013. IOGC targets normally range between about 145-450 agreements issued in a given year.

This decrease in dispositions may be related to a combination of lower industry activity levels as a result of lower commodity prices, and new technologies such as horizontal drilling. Horizontal drilling is increasing recovery rates on existing fields and unlocking value in mature pools, making previously uneconomic finds commercially viable.

In 2013-2014, surface land area under disposition amounted to 10,475 hectares. This is an increase of 94 hectares over the previous fiscal year. This number includes new dispositions minus surrendered dispositions. Surface area under disposition refers to the actual amount of reserve land impacted by oil and gas development. In 2013-2014 the total number of surface agreements under

IOGC administration was 4,877. This is a slight increase of 44 from the previous year's total of 4,833. We expect this total number of agreements to vary from year to year. However, at some point in time, the number of surface leases will decrease as hydrocarbon resources eventually become depleted and sites are reclaimed.

In 2013-2014, IOGC issued 28 sub-surface agreements which represented a decrease of 5 from 2012-2013. The total number of these agreements under IOGC administration was 697, which represents a slight decrease of 3 from the year prior, comprising 437,561 hectares. Again, the total number of agreements varies from year to year.

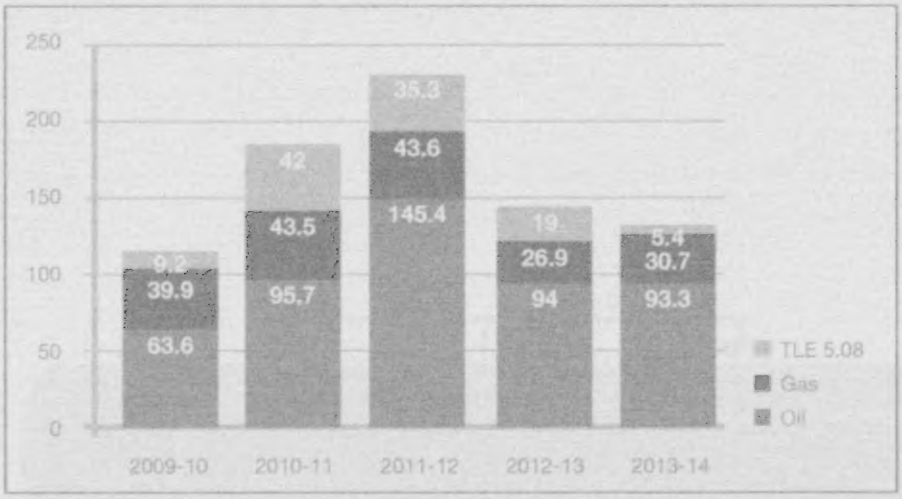
In FY2012-13, AANDC decided to decentralize the Indian Lands Registry function from headquarters in Gatineau to the regions and IOGC as part of the Deficit Reduction Action Plan. As a result, IOGC and AANDC regional offices are now directly responsible for registering agreements directly into the Indian Lands Registry System (ILRS). IOGC staff received training in the ILRS system in November 2012 at HQ and the responsibility for registration of agreements into ILRS was officially delegated to the regions and IOGC on December 1, 2012. In FY2013-14, IOGC staff performed 286 registrations into ILRS.

c. Royalties Unit

- Ensuring accuracy and completeness of royalty submissions
- Conducting royalty assessments
- Managing gas cost allowance deductions
- Managing trucking deductions; and
- Monitoring and addressing royalty moneys in suspense

IOGC is responsible for verifying and collecting royalty moneys generated by the production and sale of oil and gas resources from First Nations reserve lands. During fiscal year 2013-2014, IOGC collected $124 million in oil and gas royalties, plus $5.4 million in royalties from Treaty Land Entitlement 5.08 lands, for a total of $129.4 million in royalties. Of the $124 million, $93.3 million were for oil royalties and $30.7 million were for gas royalties. These levels represent a slight decline from the preceding fiscal year.

Royalty Revenues Collected on Behalf of First Nations over Last Five Fiscal Years ($ millions)



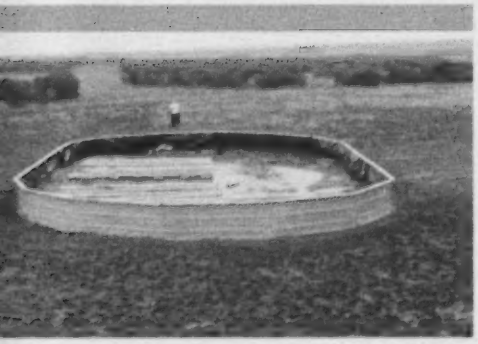
Special Subject: IOGC and Industry Engagement

Since April 2012, IOGC has been meeting regularly with the Canadian Association of Petroleum Producers (CAPP) to address areas of common interest while promoting industry activity on reserve. IOGC values this forum where it can obtain input and feedback on existing or proposed policies, procedures, and processes. Discussions include updates on IOGC's MARS Project as well as other agenda items that are typically royalty-related.

More recent meetings have included representatives from the Explorers and Producers Association of Canada (EPAC) so that IOGC can benefit from input from a broader segment of industry. IOGC's goal is to have processes and procedures that are effective and efficient for industry, and that are aligned with their business activities off reserve, with an aim of improving service to First Nations.

d. Geology Unit

- Maintaining annual drilling statistics / summary; and
- Conducting reviews for the continuation or termination of leases



Lease under construction, Little Pine Indian Reserve, Saskatchewan

Drilling on First Nations lands saw a continuation of the trend favouring horizontal drilling as well as a continued focus on oil versus gas.

In FY2012-2013, 84 of the 139 wells drilled (60.4%) were heavy oil development wells. Yet these areas have largely reached a state of mature development as demonstrated by them accounting for only 30 of 100 wells drilled (30%) in FY2013-2014. The new area of industry interest was operators targeting the Cardium tight oil play with horizontal wells.

Similar to drilling trends in the overall Western Canadian Sedimentary Basin, horizontal drilling has increased to account for 61 out of 100 wells in FY2013-2014 (61%), up from 29 out of 139 wells in FY2012-2013 (20.8%). Though the total number of wells drilled was down to 100 from 139 last year, overall investment in drilling is up substantially from approximately $100 million in FY2012-2013 to approximately $133 million in FY2013-2014. This is due to the substantial increase in relatively expensive horizontal drilling versus cheaper vertical or directional wells.

e. Treaty Land Entitlement (TLE) Support Unit

- Providing advice to TLE First Nations and working to facilitate the implementation of the TLE process
- Verifying legal title and disposition information for surface and mineral agreements on status of minerals on designated TLE
- Drafting and issuing surface and subsurface replacement agreements; and
- Ensuring all Addition to Reserves (ATR) stakeholders are informed and understand IOGC's role in the ATR process

Treaty Land Entitlement (TLE) claims are a type of land claim arising from the fact that some First Nations did not receive all the land they were entitled to under treaties signed with the Federal Crown. Today, the TLE process exists to fulfill these outstanding obligations. TLE often results in an Addition to Reserves – that is, land is added to a First Nation's land base – though First Nations can opt to receive other forms of settlement.

One of IOGC's primary roles under the TLE process is to assist with the replacement of third party interests when reserves are being created pursuant to a TLE claim. IOGC replaces agreements that are oil and gas related and can be administered according to the *Indian Oil and Gas Act* and Regulations once the lands become reserve under federal title.

In FY2013-2014 IOGC's TLE Support Unit drafted 96 replacement agreements. As of March 31, 2014 there were 432 active replacements being administered by IOGC on behalf

of several TLE First Nations. There are also another 322 replacement agreements that have been drafted and are ready to fall under IOGC administration as soon as their associated lands achieve reserve status.

Special Subject: Band-Owned Oil and Gas Companies

Many First Nations are no longer passive recipients of oil and gas royalties for their natural resources. In fact, they are becoming more involved in the oil and gas operations on their lands. First Nations have created Band-owned oil and gas companies (BOC). The structure of each BOC can be different for every First Nation as it reflects their desired level of participation and their community goals. A BOC provides a First Nation with greater control, additional economic rent, and an opportunity for capacity building.

At the end of FY2013-2014, there were 18 BOCs (unchanged from the year before) holding 159 sub-surface agreements comprising 136,476 hectares (31% of all sub-surface hectares managed by IOGC) on First Nations lands.

Regulatory Compliance Division

The Regulatory Compliance Division is responsible for maintaining a clear and transparent on-reserve oil and gas regulatory framework – supported by clear policy and enforceable rules – so as to encourage industry compliance and to instill confidence in First Nations that resource development on their lands is conducted in a manner that minimizes environmental impact while conserving resources. The division contains five units: Environment, Resource Analysis and Compliance; Technical Business Support; Review; and, Policy.

In FY2013-2014, the Environment Team visited 8 Reserves and inspected 146 surface agreement sites

a. Environment Unit

- Ensuring environmental reviews are completed and potential environmental impacts are mitigated
- Ensuring compliance through environmental protection measures such as environmental audits and inspections
- Ensuring First Nation reserve lands are returned to equivalent land capability via remediation and reclamation of oil and gas sites
- Outreach and participation with industry, First Nations, and the provinces; and
- Supporting and facilitating the abandonment of orphan wells and reclamation within each provincial jurisdiction

The overall goal for the unit is to ensure that companies are compliant with environmental protection legislation, regulations, and IOGC's environmental protection terms. To meet this goal, the unit works closely with industry clients and in partnership with First Nations and provincial oil and gas regulators.

Ranching & oil production co-existing near Blood Reserve, Alberta

The Environment Unit has been extremely busy and prides itself on meeting its service standards and encourages and seeks opportunities with First Nations and industry for continuous improvement.

In FY2013-2014, the unit reviewed a total of 213 (91 tracked; 122 carried out) environmental reviews for new or amended projects. This number of new or amended projects is up from 167 in the last fiscal year and likely reflects market conditions. The unit also reviewed 616 environmental audits for compliance.

In addition to environmental audits, the Environment Unit also conducts inspections particularly at older sites where environmental

Shut-in Well at Poundmaker First Nation Reserve in Saskatchewan

audits are not required or at sites that may be considered higher risk such as being located near residents. The unit will also inspect sites if there are complaints raised by the First Nation members. Depending on the situation, we may request that a provincial oil and gas regulator also accompany IOGC to a site or vice versa. In FY2013-2014, the Environment Team visited 8 Reserves and inspected 146 surface agreement sites. Joint inspections with provincial oil and gas regulators were conducted at 4 of the 8 Reserves and 97 of those 146 inspections. These visits resulted in 55 inspection letters being issued.

Once oil and gas activities have ended, it is expected that First Nations reserve lands are returned to equivalent land capability. In FY2013-2014, the Environmental Unit reviewed 32 reclamation applications and conducted 31 reclamation inspections.

The Environment Unit is often the face of IOGC in First Nations communities and with our industry clients. Last year, the unit attended 36 meetings with communities on 14 reserves and had 51 meetings with industry environmental consultants.

The unit supports AANDC's work on specific claims and represents IOGC on certain federal interdepartmental ad hoc task forces, such as the one addressing hydraulic fracturing

Special Subject: Legacy Wells

Some oil and gas activity on First Nations reserve lands pre-date the founding of IOGC and even that of AANDC. There are oil wells nearly a century old on reserve. Though they were decommissioned (the industry term is "abandoned") according to the industry standards of the day, over time some of them can begin to leak. With the passage of so much time, it is often difficult or impossible to determine the responsible company and hold them accountable for fixing the problem. Utilizing a risk-based assessment approach, in 2013-2014, IOGC worked with the AANDC Regional Office to re-abandon two such wells.

b. Resource Analysis and Compliance Unit

- Maintaining well files on all newly drilled wells
- Managing trespass and potential drainage situations, including enforcement
- Preparing revenue forecasts
- Conducting ongoing and routine engineering and geology work including review of notices and applications; and
- Maintaining hydrocarbon resource inventory

c. Technical Business Support Unit

- Leading and coordinating audits to ensure fair return for First Nation resources
- Leading and coordinating research; and
- Supporting IOGC and other Government of Canada bodies

While ensuring fair return for First Nations, the unit responds to various requests from other IOGC sections, from First Nations and from other Government of Canada bodies. Included in these requests are those for special royalty structures, which are often initiated by companies operating on First Nations reserve lands. The unit supports AANDC's work on specific claims and represents IOGC on certain federal interdepartmental ad hoc task forces, such as the one addressing hydraulic fracturing. In FY2013-14, unit staff conducted 3 field inspections for the purposes of oil and gas production volume verification, plus other related analyses, and for production facility compliance. Unit staff also completed oil, gas and gas production price verifications / analyses in the form of 14 oil desk reviews, 20 natural gas reviews, and 38 other, less comprehensive reviews.

Special Subject: Hydraulic Fracturing

Hydraulic fracturing technology – commonly referred to as "fracking" or "fracing" – is a process, used since 1947, to initiate or to enhance oil and gas production. It involves injecting fluid and sand at high pressure into rock formations to create and prop open cracks ("fractures" or "fracs") in petroleum bearing rock and, then, to keep the cracks propped open so that the oil or gas may be produced. Along with the sand, the injecting fluid can contain additives used to perform specific functions. For example, one ingredient ensures that operating equipment remains free of unwanted bacterial growth that could clog up sensitive equipment and instruments. After a fracking operation is completed and the sand has been placed in the formation, about 40% of the carrying fluids flow back through the well where they are collected and either reused or processed for safe disposal.

IOGC has developed a statement regarding its position on hydraulic fracturing and has posted that statement on its Internet website. IOGC remains part of a project team, spanning many federal government departments, that continues to monitor and evaluate research and data concerning the use of hydraulic fracturing technology.

PRODUCTION OF OIL AND GAS

In fiscal year 2013-2014, IOGC had oil production – for the first time – from a Manitoba First Nation.

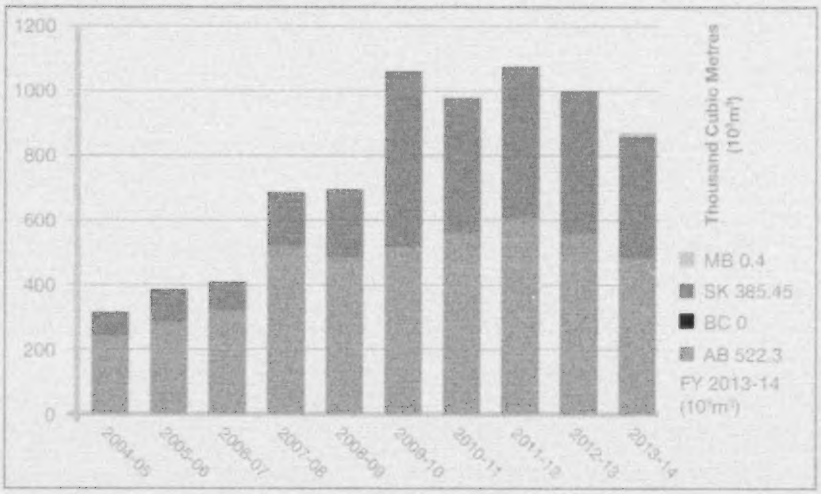
Province	Treaty Area	Number of Indian Reserves with Oil and Gas Activity
Alberta	6	24
	7	6
	8	16
British Columbia	8	3
Saskatchewan	2	2
	4	1
	6	17
Manitoba	2	1
TOTAL		70

Shut-in Well Project at Wikwemikong Nation in Ontario

OIL

During fiscal year 2013-14, oil was produced from 39 Indian reserves in 30 First Nations.

Oil Production from First Nation Lands



As indicated on the preceding oil production history chart, oil production declined slightly during fiscal year 2013-14. Total First Nation oil production in 2013-14 was just over 900,000 cubic metres, about a twelve percent drop from the previous year's total of just over 1.0 million cubic metres. Fiscal year 2013-2014 is still the fifth strongest year on record for First Nation oil production and indicates the industry's continued focus on the development of oil resources and resources of natural gas with liquid products, both on and off reserve. This oil-and-liquids focus has developed since gas prices experienced serious deflation in 2009 that made development of many gas-only resources uneconomic.

In recent years, the majority of oil production from First Nations reserve lands has been heavy oil, which is currently being produced by primary production techniques. The most prevalent of those techniques, presently, is a method known as cold heavy oil production with sand, nicknamed "CHOPS".

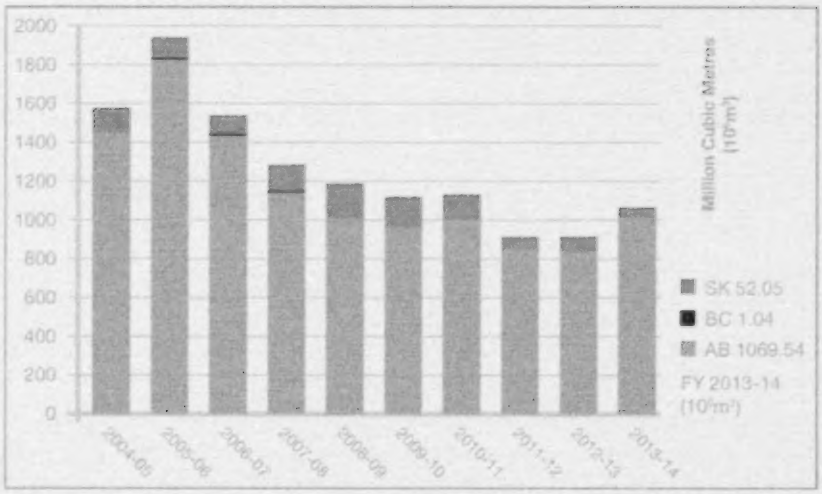
In fiscal year 2013-2014, heavy oil production from the top two producing First Nations comprised about 70 percent of all First Nation oil production.

In the past three years, province-by-province, Alberta First Nations have produced the most oil and Saskatchewan First Nations have been a close second. In fiscal year 2009-2010, when much of the drilling took place at one First Nation in Saskatchewan, oil production from Saskatchewan First Nations actually surpassed those in Alberta. Saskatchewan First Nations oil production may again rival Alberta's; in 2013, IOGC approved a steam injection enhanced oil recovery project for Onion Lake Cree Nation. Full production from the project is expected within the next two to three years.

NATURAL GAS

During fiscal year 2013-14, gas production occurred on 60 First Nations reserves, corresponding to 46 First Nations. Gas sales volumes from the top two First Nations comprised almost 68 percent of the total gas sales volumes from First Nations reserve lands.

Gas Production from First Nation Lands



As shown on the gas production history graph, during 2013-2014, total gas sales volumes from First Nations reserve lands were 1.1 billion cubic metres, approximately 15% higher than 2012-13, which itself was almost the same as the year prior.

However, the overall trend for natural gas sales over the past several years has been one of declining production. Total gas sales volumes in fiscal year 2013-2014, while encouraging, are still less than half of the approximately 2000 million cubic metres that were produced in fiscal year 2005-2006. Natural gas prices still dip occasionally to barely economic levels, which does not encourage the same natural gas development seen nine or ten years ago. Thus, IOGC believes that, if there were no emphasis on natural gas liquids production, then overall First Nations' gas production may continue to decline. The focus on natural gas liquids helps to maintain natural gas production from First Nations reserve lands, especially in Alberta.

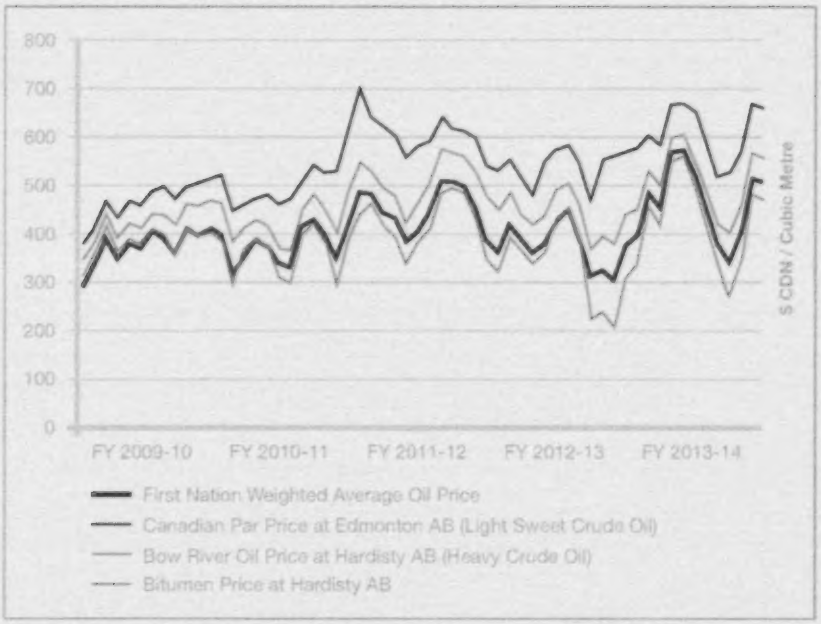
PRICES

Oil

Prices for light, sweet crude oil rose slightly, on average, from fiscal year 2012-13 through 2013-14. Although they have at times approached $700 per cubic metre, they continue to reflect some volatility. As stated previously, the majority of First Nations' oil production is heavy oil. As illustrated in the following graph of historical oil prices, when corrections are added for oil quality and transportation costs, the average price for First Nations' crude oil tracks between heavy oil and bitumen prices. Meanwhile, heavy crude oil sales and prices have remained robust, with most heavy crude oil produced from First Nations reserve lands exported to the United States. In the future, however, industry analysts are concerned that pipeline capacity constraints may have a deflating effect on heavy crude oil sales and prices.

The majority of First Nations' oil production is heavy oil

Monthly Crude Oil Prices - Past Five Years



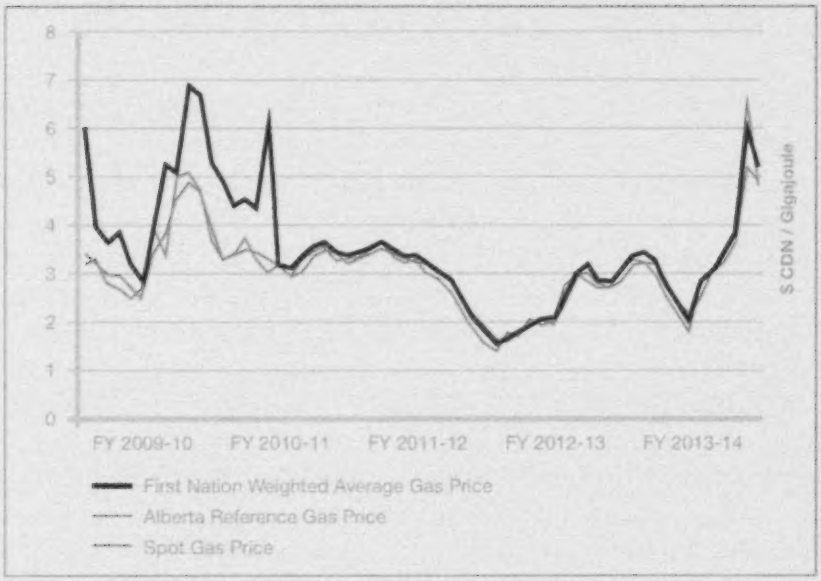
Natural Gas

Generally speaking, natural gas prices have risen since the recent lows of the summer of 2012 and, as illustrated on the gas price graph that follows, have at times approached $6.00 per gigajoule. But gas prices are also volatile and occasionally dip to barely economic levels. For example, at this writing, they are hovering at just over $4.00 per gigajoule.

The low prices are mainly due to seasonal demand for natural gas – less in the summer, more in the winter – and the large increase in the supply of gas due to advances in drilling technology, especially in the United States which has historically been the largest market for Canadian gas production. Those recent technologies, most notably the drilling of horizontal wells combined with multi-stage hydraulic fracturing (fracking, described earlier) in those wells, have enabled drillers to obtain gas from previously uneconomic gas formations such as shales and other "tight" rock formations. The development of such new gas, especially those fields in close proximity to US East Coast markets – in places such as New York, Pennsylvania, and Ohio – has generally led to reduced sales of Canadian gas, reduced Canadian investment in gas exploration, and lower Canadian gas prices.

Industry analysts are concerned that, unless new markets can be found for Canadian gas, the reduced natural gas activity in Canada may continue for years.

Monthly Natural Gas Prices - Past Five Years



d. Review Unit

- Providing litigation support, including assisting Justice Canada and the Litigation Management and Resolution Branch (LMRB) at AANDC with legal actions
- Compliance and enforcement; and
- Monitoring quality assurance of instruments that have compliance / enforcement impacts

e. Policy Unit

- Guiding regulatory module development and progress related to IOGC's MARS (Modern Act, Regulations, and Systems) Project
- Advising on strategic policy
- Researching and developing operational policy
- Monitoring and preparing responses to Parliament on changes to provincial regimes; and
- Consulting on operational and strategic policy changes

The Policy Unit's primary focus has been the development of new regulations. Though a complete set of regulatory drafting instructions were completed in March 2013, it resulted in over 6,600 pages of material that regulatory drafters would need to consider when drafting regulations. To bring into force the *Indian Oil and Gas Act, 2009* with minimal delay, this unit came up with a plan for a phased approach to regulations development that could bring into force the 2009 Act with a smaller set of core regulations early in FY2015-2016. This approach ensures that First Nations will benefit sooner from the improvements contained in the IOGA, 2009 which provides either new or enhanced authority for IOGC: 1) to audit companies working on First Nation lands; 2) to set longer periods for industry to maintain records for auditing purposes; 3) to deal more effectively with surface and sub-surface trespass; 4) to protect First Nation sites of cultural importance; 5) to order companies to take remedial action under certain circumstances; and, 6) to issue fines and penalties for offences under the Act or regulations.

The phased approach calls for updates to the *Indian Oil and Gas Regulations, 1995* – to make them compatible with the IOGA, 2009 – plus new regulations in the areas of: 1) Drainage and Compensatory Royalty; 2) Sub-surface Tenure; 3) First Nations' Audit (a component of Royalty Management); and, 4) reporting requirements to facilitate royalty verification. The remaining regulations would be completed in a sequence yet to be finalized.

Industry analysts are concerned that, unless new markets can be found for Canadian gas, the reduced natural gas activity in Canada may continue for years

The Policy Unit spent much of the year working on the new regulations while consulting, engaging, and informing First Nations via the Joint Technical Committee, the IOGC Co-Management Board, the Indian Resource Council's Annual General Meeting, and two special symposiums during which the phased approach to regulations development was presented to oil and gas First Nations. In addition, First Nations participants were provided specific details on the new regulations along with the projected timeframes for the implementation of the 2009 Act and the core regulations. Throughout the regulations development process, face-to-face meetings have taken place with individual First Nations, Tribal Councils, and Treaty areas, upon request.

Planning and Corporate Services Division

The Planning and Corporate Services (PCS) Division's key responsibilities include management planning, administrative policy, human resources, finance, procurement, office administration, and information technology. PCS also acts as secretariat to the IOGC Co-Management Board. The PCS division includes five groups: Contracts and Administration, Finance, Human Resources; Planning, Administrative Policy & Corporate Coordination, and Information Technology.

IOGC Petroleum Technician

a. Contracts and Administration Unit

- Contract and procurement services
- Material management services
- Office administration, facility, and security services; and
- Records and information, resource library and *Access to Information and Privacy Act* (ATIP) services

b. Finance Unit

- Corporate financial services
- Resource planning
- Trust fund administration
- Accounts payable; and
- Accounts receivable

c. Human Resources Unit

- Human resources planning and reporting
- Employee recruitment
- Staff relations and workplace well-being
- Compensation and benefits
- Training and career development
- Classification and organizational development
- Human resources policy development; and
- Official languages

d. Planning, Administrative Policy & Corporate Coordination Unit

- Annual IOGC Management Plan;
- Quarterly reporting
- Funding arrangement administration
- IOGC inputs into AANDC plans and reports
- IOGC Co-Management Board secretariat services; and
- Implementing corporate-wide AANDC and government directed initiatives and administrative policy development, Occupational Safety and Health (OSH) and the Management Accountability Framework (MAF)

e. Information Technology Unit

- Database administration
- Linkage / support to application development (RUGS), RIMS Steering Committee

"Lite-gating" Governance and RIMS bug fixes and enhancements
- Distributed computing including end user support (via call centre), computer evergreening and software management
- Shared services implementation
- Website support
- IT security; and
- Technical support for videoconferencing, SmartBoards and rollout of other HQ technology and systems

PCS Accomplishments

Accomplishments in 2013–2014 include:

- receipt of $157.5 million dollars on behalf of First Nations
- approval of a Values and Ethics Code and subsequent training to all staff
- development of the 2014-2015 Management Plan which continues to be based on IOGC's strategic framework illustrated on page 22
- ongoing procurement, office administration, and information management services to the organization

Human Resources at IOGC

At IOGC, we fully recognize that our people make our organization what it is. We are proud of our diverse workforce and our employment equity representation levels which exceed labour market availability. Tremendous synergy results when differing viewpoints, skill sets, and experiences are brought together. IOGC employees are professional and bring their best to the achievement of our organization's mandate, vision, and values.

IOGC strives to be a workplace of choice and this is an essential spoke on our Strategic Wheel illustrated on page 22. IOGC believes in being a learning organization and each employee has a personal annual learning

At IOGC, we fully recognize that our people make our organization what it is

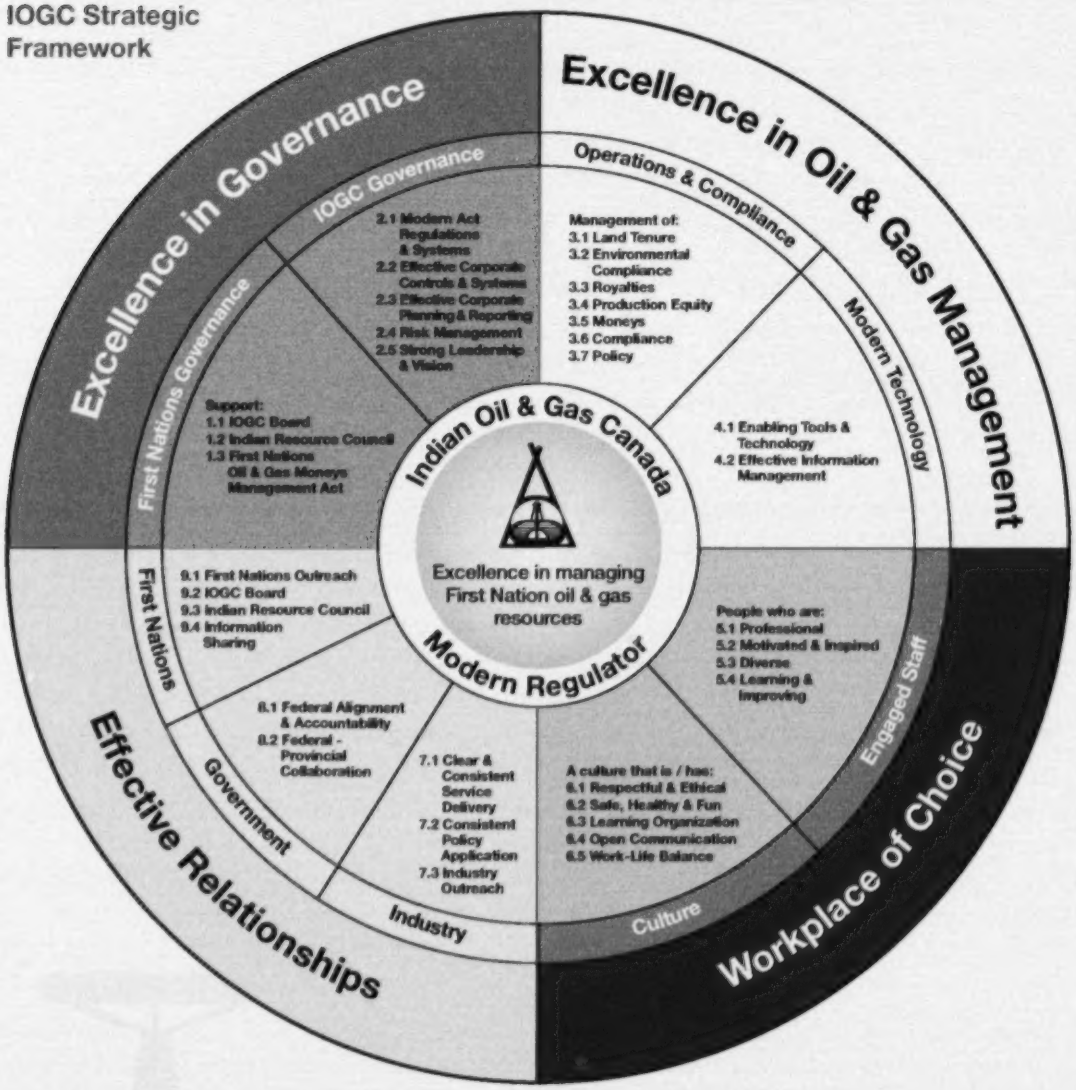
plan. IOGC offers in-house French language training, numerous "lunch and learn" training sessions which focus on well-being, and annual Aboriginal Cultural Awareness training. In FY2013-2014, various other in-house training was provided on harassment prevention, ergonomics, and workplace tools such as CIDM, RIMS, Test Track Pro, and e-mail management. In addition, staff that may be called upon to respond to media requests for information or interviews, received media training in November 2013. IOGC offers a tuition reimbursement program for those employees pursuing professional development outside of work hours. IOGC also has available an Employee and Family Assistance program.

IOGC staff recipients of Alberta Federal Council award for community services, "Adopt-A-Family"

IOGC actively promotes work-life balance and utilizes flexible hours of work and telework, as approved through the IOGC Telework Policy. Our Pride and Recognition program is used to reward employee achievements and recognize staff with long-term service. IOGC maintains its own Committee for the Advancement of Native Employees (CANE).

IOGC STRATEGIC FRAMEWORK

IOGC Strategic Framework



2013-14 FINANCIAL OPERATIONS

Funding - O&M, Contributions & Transfers			13,506,183
O&M			
Salaries		7,389,378	
Expenses			
IOGC Board	1,809		
Inventory Management	6,142		
Negotiations Disposition/Amendment	9,938		
Agreement Management	312		
Compliance	1,079,312		
Policy Management	154		
Informatics	106,016		
Corporate Management	679,603		
Environment	297,958		
Royalty	36,083		
Direct Operations Support	244,461		
IOGA Implementation	513,770		
FNOGMMA Implementation	0		
Suspense	15,349		
TLE			
Total Expenses		2,990,908	
Contributions			
IRC - Partnership	600,000		
- IOGC Board	80,000		
Total Contributions		680,000	

2013-14 FINANCIAL OPERATIONS

Transfers			
Salaries	269,726		
O&M	1,033,013		
Contributions	908,000		
Total Transfers		2,210,739	
TOTAL O&M, CONTRIBUTIONS & TRANSFERS			13,271,024
SURPLUS/DEFICIT			235,159

Revenues Collected on Behalf of First Nations

Royalties	123,993,005	
Bonus	13,173,737	
Compensation and Rentals	14,432,584	
Treaty Land Entitlement	5,902,396	
Interest	48,936	
TOTAL REVENUES COLLECTED ON BEHALF OF FIRST NATIONS		157,550,658

Indian Oil and Gas Canada
Pétrole et gas des Indiens du Canada
www.iogc-pgic.gc.ca